

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CITY OF MASON, LDFA	County INGHAM
Audit Date 6/30/05	Opinion Date 8/19/05	Date Accountant Report Submitted to State: 12/15/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.			
Street Address 1000 COOLIDGE ROAD	City EAST LANSING	State MI	ZIP 48823
Accountant Signature 		Date 12/15/05	

CITY OF MASON
LOCAL DEVELOPMENT FINANCE AUTHORITY
INGHAM COUNTY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
AND
INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.
Certified Public Accountants

CONTENTS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET	9
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS	10
STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE	11
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS	12
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	13
NOTES TO FINANCIAL STATEMENTS	15-20
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	21



Layton & Richardson, P.C.

Certified Public Accountants

1000 Coolidge Road
East Lansing, MI 48823

(517) 332-1900
(517) 332-2082 fax
Info@LNRCPA.com

Merrick A. Richardson, CPA
Principal
Rick@LNRCPA.com

Vickie L. Crouch, CPA, CGFM
Principal
Vickie@LNRCPA.com

Stephen D. Plumb, JD, CPA
Principal
Steve@LNRCPA.COM

David Layton, CPA
DaveLayton@LNRCPA.com

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
of the City of Mason
Mason, Michigan

We have audited the accompanying basic financial statements of the governmental activities of the CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Mason Local Development Finance Authority as of June 30, 2005, and the results of its operations for the year then ended, in conformity with the U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005, on our consideration of the City of Mason Local Development Finance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Layton & Richardson PC

Certified Public Accountants

August 19, 2005
East Lansing, Michigan

City of Mason Local Development Finance Authority

Management's Discussion and Analysis

The City of Mason's Local Development Finance Authority (LDFA) uses tax increment financing to fund infrastructure and development in the City's Industrial Park. Our discussion and analysis of the LDFA financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- Property tax base decreased by \$910,524 due to taxable value adjustments and tax tribunal cases.
- Total combined net assets related to the LDFA's governmental activities increased by approximately \$370,470.
- The LDFA has an annual expense to the Ingham County Economic Development Corporation. For 2004/2005 the expense was \$12,005.
- The audit fee was \$1,800.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City's LDFA as a whole and present a longer-term view of the LDFA's finances. This longer term view uses the accrual basis of accounting so that it can provide an approximate measure of the cost of funding infrastructure improvements during the current year, and estimate how closely the LDFA is funded.

The fund financial statements present a short-term view; they tell us how the resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the LDFA's operations in more detail than the government wide financial statements.

City of Mason Local Development Finance Authority

Management's Discussion and Analysis (continued)

Reporting the Local Development Finance Authority as a Whole

One of the most important questions asked about the Local Development Finance Authority's finances is, "Is the Local development Finance Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Local Development Finance Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Local Development Finance Authority's *net assets* and changes in them. You can think of the Local Development Finance Authority's net assets – the difference between assets and liabilities – as one way to measure the Local Development Finance Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Local Development Finance Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Local Development Finance Authority's captured property tax base to assess the *overall health* of the Local Development Finance Authority.

In the Statement of Net Assets and the Statement of Activities, the Local Development Finance Authority is shown as a governmental activity while within the City of Mason's audit they are shown as a component unit:

- Governmental activities – the Local Development Finance Authority's services are reported here. Property taxes finance most of these activities.

Reporting the Local Development Finance Authority's Most Significant Funds

The fund financial statements provide detailed information about the Local Development Finance Authority's funds. The Local Development Finance Authority's funds utilize the *governmental* accounting approach.

Governmental funds – Most of the Local Development Finance Authority's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental

City of Mason Local Development Finance Authority

Management's Discussion and Analysis (continued)

fund statements provide a detailed *short-term* view of the Local Development Finance Authority's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Local Development Finance Authority's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation statement presented with the fund financial statements.

The Local Development Finance Authority as a Whole

The Local Development Finance Authority was created to serve as a vehicle to fund infrastructure improvements and promote development. Specifically, water and sewer lines were extended to the area designated as the Sycamore Industrial Park. As parcels of land were utilized, lines were extended further as needed. The water and sewer infrastructure is owned and maintained by the City of Mason. **The LDFA incurred debt to extend the lines, but the City of Mason retains ownership of the infrastructure. Therefore, the net assets of the Local Development Finance Authority on the Statement of Net Assets and Statement of Activities is a deficit.**

Table 1 was summarized from the Local Development Finance Authority Statement of Net Assets. The combined net assets of the Local Development Finance Authority increased from \$(1,311,229) to \$(940,759), an increase of \$370,470 or 28%. The following table shows, in a condensed format, the net assets as of June 30, 2005 to the prior year.

Table 1
Net Assets

	Governmental Activities	
	2003/2004	2004/2005
Current and other Assets	\$ 693,115	\$ 818,763
Capital Assets	426,352	355,293
Total Assets	1,119,467	1,174,056
Long-term debt Outstanding	2,410,978	2,098,055
Other Liabilities	19,718	16,760
Total Liabilities	2,430,696	2,114,815
Net assets:		
Invested in capital assets net of debt	426,352	355,293
Restricted		
Unrestricted (deficit)	(1,737,581)	(1,296,052)
Total net assets	\$(1,311,229)	\$(940,759)

City of Mason Local Development Finance Authority

Management's Discussion and Analysis (continued)

Governmental Activities

As stated previously, the net assets of the Local Development Finance Authority's governmental activities increased by \$370,470 or 28%. Unrestricted net assets – the part of net assets that can be used to finance day to day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is recorded as a deficit of \$(1,296,052.)

Table 2 was summarized from the government-wide Statement of Activities. This table summarizes the government-wide revenues, and expenses of the Local Development Finance Authority.

Table 2
Change in Net Assets

	Governmental Activities	
	2003/2004	2004/2005
Revenues		
General Revenue		
Property taxes	\$ 710,315	\$ 666,550
Other	11,556	17,333
Total revenues	721,871	683,883
Expenses		
General Government	169,785	146,384
Total Expenses	169,785	146,384
Transfers	(160,173)	(167,029)
Increase in Net Assets	391,913	370,470
Net Assets July 1	(1,703,142)	(1,311,229)
Net Assets June 30	\$(1,311,229)	\$(940,759)

Total revenue from all sources totaled \$683,883 of which 97.5% or \$666,550 is from property taxes. Other revenues consist of unrestricted investment earnings of \$17,833. The Local Development Finance Authority was able to capture 57.108% of the City of Mason millage rate of 13.25, the county operation millage of 8.5669, MPS Operating millage of 17.985, State Education Tax mileage of 6.0000, Lansing Community College millage of 3.8375, Ingham Intermediate District millage of 6.0291, Mason School Debt millage of 4.7000, and the Capital Area District Library millage of 1.4534.

The governmental activities of the Local Development Finance Authority had an expense of \$146,384 for the past fiscal year. Due to utilizing full accrual on the

City of Mason Local Development Finance Authority

Management's Discussion and Analysis (continued)

government-wide statements, the expenditures for capital assets including infrastructure are not recorded as expenses in the current year but are capitalized on the Statement of Net Assets and are depreciated over the useful life of the asset. Only the current year depreciation is included as an expense. Additionally, the Local Development Finance Authority had transfers to Bond payment funds in the amount of \$167,029. The \$146,384 for governmental activities along with the transfers of \$167,029 is funded from \$666,550 in property taxes.

The Local Development Finance Authority's Funds

The LDFA was created in the Sycamore Industrial Park as a tool to finance public infrastructure that would encourage industrial development and investment into the City.

The financial position of the LDFA improved due to three major factors. An increase in the percentage of tax available for capture offset a reduction in taxable value, thus avoiding a decline in revenue levels. The second was a reduction in debt expenditures resulting from refinancing. The third factor is a decrease in the amount of tax refunds due to Michigan Tax Tribunal decisions and Board of Review changes.

Five of the ten parcels with the highest SEV/TV in the City are located within the LDFA. Three of the City's top ten taxpayers reside in the LDFA. There are ten abatement parcels located in the LDFA for this fiscal year. It is not uncommon for properties with tax abatements to request an adjustment to taxable value when the abatement ends and the property reverts to the ad valorem roll.

The LDFA expenditures consist primarily of debt payment and tax refunds. There is also an annual expense to the Ingham County Economic Development Corporation which supports growth in the Industrial Park.

Local Development Finance Authority Budgetary Highlights

Over the course of the year, the City Council monitors and amends the budget to take into account events during the year. There were no significant changes to the LDFA budget during this fiscal year.

Capital Assets and Debt Administration

Capital Assets

The LDFA's investment in capital assets for its governmental activities as of June 30, 2005 amounts to \$355,293 (net of accumulated depreciation.) This investment in capital assets was for a Platform Aerial Fire Apparatus. This was purchased in

City of Mason Local Development Finance Authority

Management's Discussion and Analysis (continued)

accordance with the LDFA plan in 2001 for adequate fire protection of the industrial park as well as other areas of the City. No additional investment in capital assets was made during the fiscal year.

Debt

The LDFA issued no debt during the fiscal year. The LDFA's bonded indebtedness totaled \$2,098,055 on June 30, 2005.

Economic Factors and Next Year's Budgets and Rates

The City's budget for the 2005-2006 fiscal year includes the growth of the property tax base due to new investments made by SSAB HardTech, Efficiency Production Incorporated, and Michigan Packaging Company. There is no change in property tax rates. Because of the impact of Proposal A, plus weak State government finances and reduced interest income, the City needs to continue to watch the LDFA's budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the LDFA will grow less than the rate of inflation, notwithstanding new property additions.

The City will continue to identify and encourage additional industrial growth opportunities for the LDFA. The next implementation phase of the LDFA plan is to install an additional water well. The City has been actively seeking a suitable site for the well for several years. Officials hope to begin construction in the 2005/2006 fiscal year. Interest rates are expected to increase, which will assist in building interest income.

Contacting The City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Administrator's office.

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2005

	LOCAL DEVELOPMENT FINANCE AUTHORITY GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash and cash equivalents	\$ 803,215	\$	\$ 803,215
Due from other funds	15,288		15,288
Delinquent tax receivable	260		260
Capital assets (net of accumulated depreciation)		355,293	355,293
TOTAL ASSETS	<u>\$ 818,763</u>	<u>\$ 355,293</u>	<u>\$ 1,174,056</u>
LIABILITIES AND FUND BALANCE/NET ASSETS			
LIABILITIES			
Accrued interest	\$	\$ 16,760	\$ 16,760
Long-term liabilities			
Portion due within one year		319,498	319,498
Portion due after one year		1,778,557	1,778,557
TOTAL LIABILITIES		<u>2,114,815</u>	<u>2,114,815</u>
FUND BALANCE/NET ASSETS			
Invested in capital assets, net of related debt		355,293	355,293
Unreserved	818,763	(2,114,815)	(1,296,052)
TOTAL FUND BALANCE/NET ASSETS	<u>818,763</u>	<u>(1,759,522)</u>	<u>(940,759)</u>
TOTAL LIABILITIES AND FUND BALANCE/NET ASSETS	<u>\$ 818,763</u>	<u>\$ 355,293</u>	<u>\$ 1,174,056</u>

See accompanying notes to financial statements.

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances - governmental funds		\$	818,763
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 710,587 and the accumulated depreciation is \$355,294.			355,293
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
Bonds payable	\$	2,098,055	
Interest accrued		<u>16,760</u>	<u>(2,114,815)</u>
Total net assets - governmental activities			\$ <u><u>(940,759)</u></u>

See accompanying notes to financial statements.

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY
STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	LOCAL DEVELOPMENT FINANCE AUTHORITY GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
EXPENDITURES			
General government	\$ 391,206	\$ (315,881)	\$ 75,325
Depreciation		71,059	71,059
	<u>391,206</u>	<u>(244,822)</u>	<u>146,384</u>
GENERAL REVENUES			
Property taxes	666,550		666,550
Interest	17,333		17,333
	<u>683,883</u>		<u>683,883</u>
TRANSFERS	<u>(167,029)</u>		<u>(167,029)</u>
CHANGES IN FUND BALANCE/NET ASSETS	<u>125,648</u>	<u>244,822</u>	<u>370,470</u>
FUND BALANCE/NET ASSETS, JULY 1	<u>693,115</u>	<u>(2,004,344)</u>	<u>(1,311,229)</u>
FUND BALANCE/NET ASSETS, JUNE 30	\$ <u><u>818,763</u></u>	\$ <u><u>(1,759,522)</u></u>	\$ <u><u>(940,759)</u></u>

See accompanying notes to financial statements.

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

Net changes in fund balances - total governmental funds		\$ 125,648
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Less: current year depreciation		(71,059)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Accrued interest	\$ 2,958	
Principal payments	<u>312,923</u>	<u>315,881</u>
Change in net assets - governmental activities		\$ <u><u>370,470</u></u>

See accompanying notes to financial statements.

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Property taxes	\$ 671,000	\$ 666,550	\$ 666,550	\$
Interest earnings	<u>5,500</u>	<u>15,745</u>	<u>17,333</u>	<u>1,588</u>
TOTAL REVENUES	<u>676,500</u>	<u>682,295</u>	<u>683,883</u>	<u>1,588</u>
EXPENDITURES				
Other	22,050	14,305	13,805	500
Bond/loan principal			324,448	(324,448)
Interest on fiscal charges			<u>52,953</u>	<u>(52,953)</u>
TOTAL EXPENDITURES	<u>22,050</u>	<u>14,305</u>	<u>391,206</u>	<u>(376,901)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>654,450</u>	<u>667,990</u>	<u>292,677</u>	<u>(375,313)</u>
OTHER FINANCING USES				
Transfers out	<u>(544,430)</u>	<u>(544,435)</u>	<u>(167,029)</u>	<u>377,406</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	110,020	123,555	125,648	2,093
FUND BALANCE, JULY 1	<u>693,115</u>	<u>693,115</u>	<u>693,115</u>	
FUND BALANCE, JUNE 30	\$ <u>803,135</u>	\$ <u>816,670</u>	\$ <u>818,763</u>	\$ <u>2,093</u>

See accompanying notes to financial statements.

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1: REPORTING ENTITY

In accordance with provisions of Act 425, Public Acts of 1984, the City of Mason and the Township of Vevay signed an agreement dated November 3, 1989 in which approximately 134 acres is conditionally transferred from the Township to the City for a period of 30 years from the date of the agreement. As a condition of this agreement, the Local Development Finance Authority was created in 1989 in accordance with provisions of Act 281, Public Acts of Michigan, 1986 as amended. The purpose of the Local Development Finance Authority is to help stimulate economic growth, improve employment, stimulate new private investment in the City of Mason and Vevay Township, and broaden the local tax base. The Local Development Finance Authority consists of approximately 96 acres. Tax increment financing revenues captured from eligible property shall be used for public facilities within the tax increment financing district and may include road facilities and other public facilities which are necessary to serve the eligible property whether or not located on that eligible property. Any tax revenues not required by the Local Development Finance Authority to finance public facilities to serve the eligible property within the district shall revert proportionally to the respective taxing jurisdiction.

On July 5, 1994, the City Council amended the P.A. 425 agreement with VeVay Township to include additional land. On October 3, 1994, the City Council amended the boundary for the LDFA to include an additional 67.87 acres. Of that amount, 31.87 acres belong to Michigan Packaging Corporation, and 36 acres belong to Aggregate Industries, Inc. Mason Plant. Michigan Packaging Corporation constructed a large manufacturing plant.

In accordance with GASB Statement 14 and the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Local Development Finance Authority is considered a component unit of the City of Mason for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the City of Mason Local Development Finance Authority are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Mason, Michigan.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Mason Local Development Finance Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

A. Government-Wide and Fund Financial Statements

The government-wide financial statement (i.e. the statements of net assets and the statement of changes in net assets) reports information on all of the nonfiduciary activities of the City of Mason Local Development Finance Authority. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. The City of Mason Local Development Finance Authority has no business-type activities.

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A. Government-Wide and Fund Financial Statements - Concluded

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

B. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statement is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Governmental fund financial statement is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

C. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Local Development Finance Authority as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded

D. Capital Assets - Concluded

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on the government-wide statement. Depreciation is applied over the estimated useful life of capital assets.

Straight-line and declining balance depreciation methods are used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	10-40 years
Vehicles	7-10 years

E. Long-Term Liabilities

In the government-wide financial statement, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

NOTE 3: RESTRICTED REVENUE AND EXPENDITURES

The City of Mason Local Development Finance Authority (LDFA) receives property tax revenue for construction or improvement of public facilities within the LDFA district. The City of Mason, Michigan Water and Sewer Fund issued \$1,125,000 of revenue bonds to finance construction of water and sewer mains to serve the LDFA district. The LDFA has agreed to reimburse the City of Mason Water and Sewer Fund for the debt service. The LDFA is restricted to disburse funds for payment of debt service until such time the bond issue is paid in full.

NOTE 4: CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the LDFA as of June 30, is as follows:

	2005
Cash in bank	\$ 621
Certificate of deposit	<u>802,594</u>
Total	<u>\$ 803,215</u>

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2005

NOTE 4: CASH AND CASH EQUIVALENTS - Concluded

State statutes authorize the City Treasurer to invest in obligations of the U.S. Treasury, agencies and instrumentalities; certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC); commercial paper rated in the three highest rate classifications of two rating services; United States government or federal agency obligation repurchase agreements; and mutual funds composed of investments which are legal for direct investment by local units of government in Michigan.

The LDFA's investments (including those presented as cash) are categorized as follows to give an indication of the level of risk assumed by the LDFA. Category 1 includes deposits and investments that are insured, registered or for which the securities are held by the LDFA or its agent in the LDFA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' trust department or agent in the LDFA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the LDFA's name.

At June 30, 2005, the LDFA's investments were categorized as follows:

Uninsured and uncollateralized \$ 802,594

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the LDFA's deposits may not be returned to it. The LDFA does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$803,215 of the LDFA's bank balance of \$803,215 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$ 803,215

NOTE 5: LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended June 30, 2005.

	BALANCE JULY 1	ADDITIONS (DEDUCTIONS)	BALANCE JUNE 30	DUE WITHIN ONE YEAR
\$425,000 1992 Local Development Financing Authority Bonds due in annual installments of \$10,000 to \$35,000 through October 1, 2013; interest at 5.75% to 8.00%	\$ 275,000	\$ (20,000)	\$ 255,000	\$ 20,000
\$1,125,000 1994 Local Development Financing Authority Bonds due in annual installments of \$75,000 to \$85,000 through April 1, 2010; interest at 6.10% to 7.65%.	505,000	(80,000)	425,000	85,000

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2005

NOTE 5: LONG-TERM DEBT - Concluded

	BALANCE JULY 1	ADDITIONS (DEDUCTIONS)	BALANCE JUNE 30	DUE WITHIN ONE YEAR
\$1,386,000 1998 Local Development Financing Authority, Michigan Jobs Commission, Series A due in annual installments of \$106,615 through August 1, 2011.	\$ 852,923	\$ (106,615)	\$ 746,308	\$ 106,615
\$1,414,000 1998 Local Development Financing Authority, Series B, due in annual installments of \$61,982 to \$116,113 through March 1, 2011; effective interest rate of 1.481%.	<u>778,055</u>	<u>(106,308)</u>	<u>671,747</u>	<u>107,883</u>
TOTAL	\$ <u>2,410,978</u>	\$ <u>(312,923)</u>	\$ <u>2,098,055</u>	\$ <u>319,498</u>
Less: Amount payable within one year			<u>(319,498)</u>	
TOTAL LONG-TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES			\$ <u>1,778,557</u>	

Annual debt service requirements to maturity for long-term obligations as follows:

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST
2006	\$ 319,498	\$ 55,628
2007	326,096	46,668
2008	327,718	37,508
2009	329,364	28,306
2010	336,034	18,905
2011	252,729	9,303
2012	136,616	5,610
2013	35,000	3,465
2014	<u>35,000</u>	<u>1,155</u>
	\$ <u>2,098,055</u>	\$ <u>206,548</u>

CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2005

NOTE 6: INTERFUND TRANSFERS

The following are the interfund transfers for the year ended June 30, 2005:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
General	\$ 7,370	Local Development	\$ 7,370
Water and Sewer	<u>159,659</u>	Finance Authority	<u>159,659</u>
	<u>\$ 167,029</u>		<u>\$ 167,029</u>

NOTE 7: CAPITAL ASSETS

A summary of changes in the Authority's capital assets is as follows:

	BALANCE JULY 1	ADDITIONS	DELETIONS	BALANCE JUNE 30
Capital assets being depreciated				
Vehicles	\$ 710,587	\$	\$	\$ 710,587
Less: Accumulated depreciation	<u>284,235</u>	<u>71,059</u>		<u>355,294</u>
Net capital assets	<u>\$ 426,352</u>	<u>\$ (71,059)</u>	<u>\$</u>	<u>\$ 355,293</u>



Layton & Richardson, P.C.

Certified Public Accountants

1000 Coolidge Road
East Lansing, MI 48823

(517) 332-1900
(517) 332-2082 fax
Info@LNRCPA.com

Merrick A. Richardson, CPA
Principal
Rick@LNRCPA.com

Vickie L. Crouch, CPA, CGFM
Principal
Vickie@LNRCPA.com

Stephen D. Plumb, JD, CPA
Principal
Steve@LNRCPA.COM

David Layton, CPA
DaveLayton@LNRCPA.com

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of Mason
Mason, Michigan

We have audited the financial statements of the governmental activities, and the general fund of the CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY, as of and for the year ended June 30, 2005, which collectively comprise the CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY's basic financial statements and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mason Local Development Finance Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mason Local Development Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the City Council, management and federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton & Richardson PC

Certified Public Accountants

East Lansing, Michigan
August 19, 2005